

Message Text

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ACTION EB-07

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DODE-00 FRB-03 H-02 INR-07 INT-05 L-03 LAB-04 NSAE-00

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TRSE-00 USIA-06 PRS-01 SP-02 OMB-01 FEA-01 AF-06

ARA-06 EA-07 EUR-12 NEA-10 XMB-02 OIC-02 /136 W

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FM USDEL MTN GENEVA

TO SECSTATE WASHDC PRIORITY 490

CONFIDENTIAL SECTION 1 OF 3 MTN GENEVA 7220

PASS STR

EO: 11652: GDS-3

TAGS: ETRD GATT

SUBJ: MTN: ISSUES FOR TARIFFS GROUP MEETING OCTOBER 13-17

1. SUMMARY: U.S. MTN DEL RECOMMENDS POSITIONS FOR TARIFFS GROUP MEETING OCT 13-17. RECOMMENDATIONS INCLUDE INDICATION OF TYPE OF FORMULA FAVORED BY U.S., SPECIAL PROCEDURES FOR LDCS, AND DISCUSSION OF EXCEPTIONS PROCEDURES. END SUMMARY.

2. MTN TARIFFS GROUP WILL MEET OCT. 13-17 TO RESUME ITS CONSIDERATION OF POSSIBLE ELEMENTS OF A TARIFF NEGOTIATING PLAN AND SPECIAL PROCEDURES FOR LDCS. AFTER SIX MEETINGS OF TARIFFS GROUP AND ITS PREDECESSOR, GROUP 3A, ONLY A SMALL NUMBER OF MINOR ISSUES HAVE BEEN SETTLED. DELEGATIONS HAVE BEEN RELUCTANT TO TAKE FIRM POSITIONS ON MOST OF THE ISSUES BEFORE THE GROUP FOR SEVERAL REASONS:

A. THEY ARE WAITING FOR THE UNITED STATES TO COMPLETE ITS DOMESTIC "PRENEGOTIATION" PROCEDURES; B. THEY OPENLY RECOGNIZE THAT U.S.-EC DIFFERENCES ON A RANGE OF MTN QUESTIONS WILL HAVE TO BE RESOLVED IN SOME MANNER BEFORE SERIOUS TARIFF NEGOTIATIONS CAN CONFIDENTIAL

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BEGIN AND THAT U.S.-EC AGREEMENT ON A TARIFF NEGOTIATING PLAN WILL

LARGELY DETERMINE THE CONTENT OF A PLAN; C. THEY RECOGNIZE THAT ALL ELEMENTS OF A PLAN ARE INTERRELATED. UNTIL IT IS CLEAR WHAT THE GENERAL TARIFF REDUCTION FORMULA OR FORMULAE WILL BE AND WHETHER AND HOW EXCEPTIONS ARE TO BE LIMITED, THEY DO NOT WISH TO REDUCE THEIR FLEXIBILITY; D. THEY WISH AVOID ATTRACTING ATTENTION OF PROTECTIONIST FORCES AT TIME OF WORLD RECESSION.

3. USING AS REFERENCE THE SECRETARIAT CHECKLIST OF POSSIBLE ELEMENTS OF A TARIFF NEGOTIATING PLAN (MTN/TAR/W/REV.1 OF 22 JULY 1975), WE HAVE INFORMALLY DISCUSSED ISSUES FOR NEXT MEETING WITH DELEGATIONS OF THE EUROPEAN COMMUNITIES, JAPAN, CANADA, SWEDEN (FOR NORDICS), SWITZERLAND, INDIA, AND BRAZIL AND WITH SECRETARIAT. SIMILAR DISCUSSIONS WILL BE HELD WITH DELEGATIONS OF AUSTRALIA AND TWO OR THREE OTHER LDCS WHEN THEY ARE AVAILABLE. THE FOLLOWING ANNOTATED CHECKLIST CONTAINS OUR VIEWS AND THOSE OF OTHER DELEGATIONS ON ISSUES EXPECTED TO ARISE AT THAT MEETING.

A. FORMULA - TEN TARIFF CUTTING FORMULAE (SEE MTN/TAR/2) HAVE BEEN PROPOSED WITH VARYING DEGREES OF COMMITMENT AND VARYING DEGREES OF SPECIFICITY. DISCUSSION OF THESE FORMULAE THUS FAR HAS BEEN MOSTLY PRELIMINARY SKIRMISHING WITHOUT STRUCTURE AND WITHOUT SERIOUS EFFORT TO ANALYZE IN THE GROUP THEIR POSSIBLE MEANING FOR INDIVIDUAL COUNTRIES OR FOR MTN PARTICIPANTS AS A WHOLE. IT IS UNLIKELY THAT ANY NEW FORMULA PROPOSALS WILL BE MADE AT NEXT MEETING NOR IS ANY SIGNIFICANT ELABORATION OF EXISTING PROPOSALS EXPECTED. WE HAVE INDICATED TO OTHER DELEGATIONS THAT, WHILE IT IS POSSIBLE U.S. MAY BEGIN TO TAKE MORE DEFINITIVE POSITION ON TYPE OF FORMULA IT PREFERS, IT IS UNLIKELY THAT A FIRM U.S. FORMULA PROPOSAL WILL BE MADE AT NEXT MEETING BECAUSE OF NEED TO COMPLETE DOMESTIC PROCEDURES. DC DELEGATIONS, WITH THE POSSIBLE EXCEPTION OF CANADA, SEEM CONTENT WITH THIS PACE. AN INTEGRAL PART OF FORMULA DISCUSSIONS IS QUESTIONS RELATING TO TREATMENT OF LOW DUTIES, OVERALL DEPTH OF CUT AND EQUIVALENCE OF ACCESS. EC, JAPAN, SWISS, NORDICS, AUSTRIA AND SOME LDCS APPEAR TO FAVOR A FLOOR/THRESHOLD OF AROUND 5 PERCENT BELOW WHICH NO CUTS WOULD BE MADE. CANADA VERY VIGOROUSLY OPPOSES A FLOOR/THRESHOLD. ONLY U.S. HAS DESCRIBED EQUIVALENCE OF ACCESS AMONG DCS, TAKING INTO ACCOUNT ALL BARRIERS, AS A MTN GOAL. (EC TARIFF HARMONIZATION APPROACH - THE HIGHER THE TARIFF THE DEEPER THE PROPORTIONAL CUT - IS SOME DISTANCE FROM THIS CONCEPT.) THERE HAS BEEN NO DISCUSSION OF THE

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POSSIBILITY OF ESTABLISHING SOME FORM OF TARGET OVERALL DEPTH OF CUT AND WEIGHING THAT TARGET AGAINST POSSIBLE FORMULAE. RECOMMENDATIONS: U.S. SHOULD, AT NEXT MEETING:

I. INDICATE CLEARLY THAT IT PREFERS A LINEAR APPROACH WITHOUT SPECIFYING WHAT FORMULA AND THAT IT OPPOSES ANY FLOOR/THRESHOLD. THIS WOULD GIVE US MORE LEVERAGE VIS-A-VIS EC AND ITS ALLIES IN PROCESS OF ARRIVING AT SOME FORM OF COMPROMISE. MOTIVATION FOR

THIS INITIATIVE (STRICTLY AN INITIAL NEGOTIATING PORTURE) WILL HAVE TO BE CAREFULLY EXPLAINED TO CONGRESSIONAL AND PRIVATE SEC- TOR ADVISERS IN ADVANCE OF OCT 13 MEETING. AT VERY LEAST, WE SHOULD OUTLINE ANALYSIS OF ALTERNATIVE FORMULAE THAT INDICATES IN CONCRETE WAY WEAKNESSES OF EC TYPE OF HARMONIZATION AND STRENGTHS OF LINEAR APPROACH.

II. QUESTION OF TARGET FOR OVERALL REPEAT OVERALL TARIFF REDUCTIONS WILL BE RAISED IN MEETING SINCE IT APPEARS IN SECRETARIAT CHECKLIST, SO WE WILL BE EXPECTED TO COMMENT ON IT. WHILE THERE IS DIFFERENCE OF OPINION ON USEFULNESS OF THIS CONCEPT AS WAY TO STIMULATE DISCUSSION, ON BALANCE, MTN BELIEVES IT UNWISE FOR U.S. TO SET A TARGET FOR REDUCTIONS BEFORE CONCLUDING WHAT ITS APPROACH TO TARIFF-CUTTING EXERCISE IS GOING TO BE.

III. STATE THAT MTN GOAL SHOULD BE EQUIVALENCE OF ACCESS AMONG DCS FOR APPROPRIATE PRODUCT SECTORS, TAKING INTO ACCOUNT ALL BARRIERS.

B. BASE RATES/BASE DATE - BILATERAL ITEM BY ITEM REVIEW WITH CANADA IS TENTATIVELY SCHEDULED FOR END OF MONTH, WHEN CANADIAN TARIFF RATE INFORMATION FILE IS EXPECTED TO BE AVAILABLE. INITIAL SESSION ON THIS QUESTION WITH CANADA IN JULY (MTN GENEVA 5838) WAS NOT USEFUL BECAUSE OF ABSENCE OF ANY CANADIAN-PREPARED MATERIALS. SIMILAR REVIEW WITH JAPAN IS TENTATIVELY SET FOR WEEK OF OCT 6, WHEN TOKYO EXPERT AND MATERIALS WE REQUESTED FROM JAPAN (MTN GENEVA 6035) WILL BE AVAILABLE. REVIEW WITH AUSTRALIA WILL ALSO BE HELD DURING THIS PERIOD.

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RECOMMENDATION: DEPENDING ON FINDINGS OF BILATERAL REVIEWS, NO CHANGE IN U.S. POSITION. IN EFFORT ACCELERATE TARIFF RATE FILE SUBMISSIONS BY OTHER COUNTRIES - OR AT LEAST OTHER DCS - WE SHOULD ANNOUNCE THAT U.S. WILL AGREE TO SECRETARIAT PROVIDING U.S. TARIFF RATE FILE AND PRINTOUT ONLY TO THOSE COUNTRIES WHICH HAVE PROVIDED THEIR FILES TO SECRETARIAT. U.S. SHOULD ALSO PREPARE AND CIRCULATE ITS ACCOMPANYING TARIFF SYSTEM EXPLANATORY NOTE AT OR BEFORE NEXT MEETING (SEE MTN GENEVA 4216).

C. UNIT OF ACCOUNT - EC DID NOT RAISE ISSUE IN INFORMAL DISCUSSION LAST WEEK AND IT IS NOT SPECIFICALLY SCHEDULED FOR DISCUSSION. IT IS UNLIKELY EC WILL MAKE MORE THAN PASSING REFERENCE TO QUESTION IN NEXT TARIFFS GROUP MEETING. EXISTING GUIDANCE IS SUFFICIENT.

D. FOB/CIF - WE WOULD LIKE TO EXPAND ON OUR OBSERVATIONS ABOUT PROBLEM OF COMPARISON AMONG DUTIES BASED ON DIFFERENT CUSTOMS VALUATION BASES, WITHOUT SEEKING ANY GROUP DECISION AT THIS POINT. IT WOULD BE USEFUL TO HAVE MORE RECENT DATA AND COMPARATIVE ANALYSIS OF U.S. TARIFFS ON FOB AND CIF BASIS.

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E. TARIFF ESCALATION - WE WILL BE EXPECTED TO EXPAND ON SECRETARY KISSINGER'S SEVENTH SPECIAL SESSION REMARKS ON THIS QUESTION. DELEGATION IS DOING SOME PRELIMINARY ANALYSIS BUT ITS USE AND THRUST WILL DEPEND ON POSITION U.S. TAKES ON FORMULA.

F. EXCEPTIONS - WE BELIEVE A PRELIMINARY EXCHANGE OF VIEWS ON EXCEPTIONS PROCEDURES SHOULD OCCUR AT NEXT MEETING, WITHOUT REFERENCE TO EITHER PRODUCT OR PRODUCT GROUPS. DISCUSSION SHOULD INCLUDE VIEWS ON GENERAL PRINCIPLES, WAYS TO LIMIT EXCEPTIONS, AND POSSIBLE MULTILATERAL CONFRONTATION AND JUSTIFICATION EXERCISE. EC, CANADA AND DEPUTY DIRECTOR GENERAL PATTERSON (TARIFFS GROUP CHAIRMAN) BELIEVE THIS ISSUE COULD USEFULLY BE DISCUSSED IN SOME DETAIL, WHILE SWEDES AND SWISS ARE CONCERNED THAT EVEN A DISCUSSION OF PROCEDURES NOW WILL AROUSE DOMESTIC PROTECTIONIST GROUPS AND RETARD PROGRESS TOWARD AGREEMENT ON REDUCTION FORMULA, GIVEN WORLD ECONOMIC SITUATION. JAPAN IS NOT ENTHUSIASTIC BECAUSE IT FEELS DISCUSSION OF EXCEPTIONS PROCEDURES COULD BE SEIZED UPON BY PROTECTIONISTS IN CURRENT SPECIAL SESSION OF DIET TO LIMIT JAPANESE NEGOTIATING FLEXIBILITY. IT RECOGNIZES, HOWEVER, THAT GROUP WILL HAVE TO CONSIDER EXCEPTIONS PROCEDURES SOON.

RECOMMENDATION: U.S. SHOULD BE PREPARED TO DISCUSS ITS TENTATIVE THINKING ON QUESTION OF EXCEPTIONS PROCEDURES, WHILE RECOGNIZING THAT MORE DEFINITE VIEWS MUST AWAIT AGREEMENT ON A FORMULA.

G. LINKS WITH NTMS - AUSTRALIA CAN BE EXPECTED TO PUSH ITS PROPOSALS (ITS FINISHED PAPER WILL BE CIRCULATED SHORTLY) THAT NTM DATA BE ADDED TO TARIFF RATE INFORMATION FILE. CANADA AND PERHAPS NEW ZEALAND WILL PROBABLY SUPPORT CONCEPT. CONSIDERATION OF U.S. POSITION IN TARIFFS AND NTM GROUPS SHOULD TAKE INTO ACCOUNT POSSIBILITY THAT SUCH AN EXPANDED FILE COULD ADVANCE OUR SECTORAL NEGOTIATION OBJECTIVES WHEN THEY ARE MORE CLEARLY DEFINED. (SEE MTN GENEVA 6550 FOR OUR DETAILED COMMENTS.)

H. WHO APPLIES THE FORMULA -

RECOMMENDATION: U.S. SHOULD ANNOUNCE, AS EC DID AT LAST TNC, THAT IT DOES NOT EXPECT LDCS TO BE FORMULA COUNTRIES BUT EXPECTS LDCS TO MAKE TARIFF AND NTM CONCESSIONS COMMENSURATE WITH THEIR STAGE OF DEVELOPMENT, E.G., ITEM BY ITEM NEGOTIATIONS FOR TARIFFS. U.S. SHOULD ALSO ANNOUNCE THAT IT EXPECTS ALL DCS TO BE FORMULA

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COUNTRIES. THIS, OF COURSE, BEGS THE QUESTION OF WHO IS A DC OR LDC AND HOW STATE TRADING COUNTRIES BOTH WITH AND WITHOUT TARIFFS ARE TO BE TREATED.

I. LDCS - THIS ASPECT HAS SEVERAL DIMENSIONS: LDCS DESIRE FOR SPECIAL AND MORE FAVORABLE CONCESSIONS FROM DCS, THEIR DESIRE TO LIMIT THEIR CONCESSIONS TO DCS, THEIR DESIRE FOR SPECIAL PROCEDURES LEADING TO SPECIAL RESULTS, AND INCORPORATION OF THEM AS AN INTEGRAL PART OF THE TARIFF NEGOTIATING PLAN WITH DECISIONS BEING MADE CONCURRENTLY WITH OTHER ELEMENTS OF THE PLAN, THEIR MAJOR CONCERN ABOUT EROSION OF GSP BENEFITS THROUGH MFN TARIFF REDUCTIONS AND COMPENSATION FOR THE EROSION, AND THEIR DESIRE FOR ADDITIONAL BENEFITS. AT U.S. INITIATIVE, SWEDEN PLANS TO HOST DISCUSSION WEEK OF SEPTEMBER 29 BY SMALL GROUP OF DCS OF ISSUES RAISED BY LDCS TO EXPLORE ALTERNATIVES FOR DCS AND TRY TO STRUCTURE COORDINATED RESPONSE TO LDCS. IN VIEW OF U.S. INITIATIVES AT UNGA SPECIAL SESSION, WE EXPECT LDCS TO PUSH VIGOROUSLY FOR TANGIBLE EVIDENCE OF PROGRESS ON THEIR DEMANDS. U.S. SHOULD BE PREPARED TO INDICATE ACCEPTANCE OF SOME SPECIAL PROCEDURES FOR LDCS. AT SAME TIME, U.S. SHOULD STATE UNEQUIVOCABLY ITEMS WHERE U.S. CANNOT AGREE TO LDC DEMANDS.

I. SPECIAL PROCEDURES FOR LDCS.

ACCORDINGLY, DELEGATION REQUESTS WASHINGTON ASSESSMENT AND REACTION TO FOLLOWING PROPOSAL FOR SPECIAL PROCEDURE IN FAVOR OF LDCS. WE BELIEVE THIS APPROACH WOULD DEVELOP MEANINGFUL WORK PROGRAM FROM LDC PERSPECTIVE AND WOULD OFFER SUITABLE ALTERNATIVE TO MORE CONTROVERSIAL PROPOSAL SUCH AS POSSIBILITY OF LDC CONCESSIONS FOR GSP TREATMENT OBTAINED IN MTN (SEE MTN GENEVA 7176). IN

ADDITION, THIS WOULD MOVE LDCS INTO NEGOTIATING ENVIRONMENT WHICH WOULD STRESS ROLE OF MFN CUTS THEREBY COUNTERING LDC OBJECTIVE OF PERMANENT SPECIAL LDC PREFERENCES, SUCH AS INSTITUTIONALIZATION OF GSP, AND APPARENT WILLINGNESS OF EC TO RESPON TO LDC REQUESTS THROUGH ITS GSP.

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DELEGATION PROPOSED COURSE OF ACTION IS AS FOLLOWS:

DEL WOULD STATE THAT U.S. DOES NOT EXPECT LDCS TO BE FULL PARTICIPANTS IN TARIFF FORMULA REDUCTIONS BUT THAT PROCEDURES TAKING INTO ACCOUNT LDC INTERESTS AS WELL AS LDC CONTRIBUTIONS TO NEGOTIATIONS SHOULD MOVE IN PARALLEL WITH TARIFF CUTTING EXERCISE. WITH THIS IN MIND, U.S. PROPOSES THAT LDCS PARTICIPATE IN NOTIFICATION PROCEDURE IN WHICH PRODUCTS IN DC MARKETS ON WHICH TARIFF CUTS ARE DESIRED WILL BE NOTIFIED BY COUNTRY BY LDCS. DCS WOULD SIMILARLY NOTIFY LDC TARIFF ITEMS ON WHICH THEY WOULD LIKE TARIFF REDUCTIONS. THIS WOULD BE A PRELIMINARY STEP TO EVENTUAL ITEM BY ITEM NEGOTIATION AND THE GROUND RULE WOULD BE THAT NOTIFYING COUNTRIES MUST HAVE A "DEMONSTRATED PRESENT OR POTENTIAL TRADE INTEREST" IN THE PRODUCT NOTIFIED. "DEMONSTRATED TRADE INTEREST" COULD FOR EXAMPLE BE DEFINED AS SOME MINIMUM THRESHOLD LEVEL OF ACTUAL EXPORTS IN A RECENT PERIOD IN ORDER TO KEEP LISTS OF PRO-

DUCTS TO A MANAGEABLE NUMBER, BUT WITHOUT PREJUDICING COUNTRIES' RIGHTS TO PRESENT ADDITIONAL TRADE ITEMS AT LATER PERIOD. LISTS WOULD THEN BE CLARIFIED IN BILATERAL CONSULTATIONS BETWEEN DELEGATIONS. RESULTING LIST OF LDC IDENTIFIED PRIORITY TRADE ITEMS WOULD THEN BE AVAILABLE FOR POSSIBLE FUTURE USE IN TARIFFS GROUP

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IN ASSESSING FEASIBILITY OF POTENTIAL SPECIFIC ACTIONS BY DCS, INCLUDING:

- A. DEEPER THAN FORMULA CUTS ON SUCH PRODUCTS;
- B. IMMEDIATE OR SPEEDED UP IMPLEMENTATION OF TARIFF CUTS ON SUCH PRODUCTS;
- C. SPECIAL AND MORE RIGOROUS EXCEPTION PROCEDURES ON IDENTIFIED PRODUCTS.

CONSULTATIONS, CLARIFICATION SESSIONS COULD BE EXPECTED TO LAST UNTIL MID-SPRING OF 1976 CONCLUDING HOPEFULLY PRIOR TO FINAL DECISION ON TARIFF NEGOTIATING FORMULA. PROPOSAL WOULD HAVE ADDED ADVANTAGES OF DEMONSTRATING TO INDIVIDUAL LDCS HOW GSP EROSION MIGHT BE ALLEVIATED THROUGH SPECIAL MEASURES MENTIONED ABOVE, AND WOULD SET THE STAGE FOR DC REQUESTS FOR RECIPROCITY CONSISTENT WITH PARA 5 TOKYO DECLARATION.

DELEGATION BELIEVES THAT CROSS NOTIFICATION PROCEDURE ON AN ITEM BY ITEM BASIS WILL BE NEEDED EVENTUALLY IN ANY EVENT WITH NONFORMULA COUNTRIES AND TO BEGIN NOW WILL DEMONSTRATE PRIORITY CONCERN FOR LDC TRADE INTERESTS AND WILL BE NECESSARY IF MID-1977 WRAP-UP IS STILL ENVISAGED. IN ADDITION, PROCEDURE WOULD DEMONSTRATE TO LDCS, ESPECIALLY LARGEST AND MOST ADVANCED, POTENTIAL ADVANTAGE OF MFN CUTS AND RECIPROCAL APPROACH AS OPPOSED TO POTENTIALLY MINIMAL DC CONCESSIONS ON PREFERENTIAL BASIS.

II. IN CONJUNCTION WITH ABOVE SPECIAL PROCEDURES OR AS A POSSIBLE FALLBACK POSITION, U.S. DEL RECOMMENDS THAT U.S. SHOULD INDICATE IT IS PREPARED IN PRINCIPLE TO: (MTN GENEVA 6757 CONVEYED NUMBER OF U.S. DEL'S IDEAS AND RATIONALE.)

- A. CONSIDER ON A CASE BY CASE BASIS ACCELERATED STAGING OF TARIFF CUTS ON PRODUCTS OF PARTICULAR INTEREST TO LDCS WITHIN THE CONSTRAINTS OF OUR LEGISLATION.
- B. PARTICIPATE WITH OTHERS IN ESTABLISHING SPECIAL PROCEDURES IN CONTEXT OF EXCEPTIONS EXERCISE TO ASSURE THAT LDC INTERESTS ARE PROTECTED.
- C. EXAMINE OTHER POSSIBLE SPECIAL PROCEDURES PARI PASSU WITH GENERAL TARIFF NEGOTIATING PLAN RULES.
- D. PARTICIPATE IN STUDIES OF THE EFFECTS OF ALTERNATIVE FORMULAE ON THE TRADE OF LDCS.
- E. JOIN WITH OTHERS IN CONSIDERING WAYS TO INCREASE SECURITY OF GSP, INCLUDING SOME FORM OF MULTILATERAL SURVEILLANCE.
- F. INITIATE STUDIES IN SECRETARIAT OF TARIFF ESCALATION AND POSSIBLE WAYS TO REDUCE IT ON PRODUCTS OF PARTICULAR INTEREST TO

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LDCS.

G. FAVOR ESTABLISHMENT OF MECHANISMS TO INSURE FULL LDC PARTICIPATION IN ALL MULTILATERAL ASPECTS OF TARIFF NEGOTIATIONS.

H. INDICATE AS WE DID IN JULY TARIFFS GROUP MEETING THAT SOME OF THE LDC PROPOSALS CONTAINED IN PARA 7 OF MTN/TAR/2 ARE SIMPLY NOT POSSIBLE AND THAT RATHER THAN CONTINUE TO TALK ABOUT THE IMPOSSIBLE, LDCS AND GROUP IN GENERAL SHOULD FOCUS ATTENTION ON WHAT IS POSSIBLE.

I. REFER TO KISSINGER ANNOUNCEMENT THAT U.S. GSP WILL BE PUT INTO EFFECT JANUARY 1, 1976, AND GIVE WHATEVER DETAILS MIGHT BE FEASIBLE AT TIME OF NEXT TARIFFS GROUP MEETING. WALKER

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